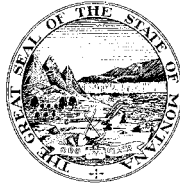


LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

TO: Recipients of Montana State Fund-06 RFP
DATE: May 19, 2006

REQUEST FOR PROPOSAL
***Engagement to Study and Evaluate Montana State Fund's Premium Rates, Claims
Reservation Process, and Estimated Claims Liability***

Addendum #1
RFP Questions and Answers

To All Offerors:

Please make the following addition to the above-referenced "Request for Proposal".

Attached are the written questions received in response to this RFP. These questions along with the Legislative Audit Division's response to each became an official amendment to this RFP.

All other terms of the subject "Request for Proposal" are to remain as previously stated.

Acknowledgement of Addendum:

The offeror for this solicitation must acknowledge receipt of this addendum. This page must be submitted at the time set for the proposal opening or the proposal may be disqualified from further consideration.

I acknowledge receipt of Addendum #1

Signed: _____

Company Name: _____

Date: _____

If you have any questions, please do not hesitate to contact me. Thank you.

Angie Lang, Coordinator for Audit Development, 406-444-3122

MONTANA STATE FUND-06 – ENGAGEMENT TO STUDY AND EVALUATE MONTANA STATE FUND’S PREMIUM RATES, CLAIMS RESERVATION PROCESS, AND ESTIMATED CLAIMS LIABILITY

Questions and Answers:

1. *Question:* Has any similar study or portion of the study ever been performed in the past?

Answer: Yes, the study is performed annually. The scope of the study has not changed, with the exception of the time periods involved.

2. *Question:* When was the study performed?

Answer: This study is performed annually. The last study was performed one year ago.

3. *Question:* Who was the last consulting firm that performed the work?

Answer: Pacific Actuarial Consultants

4. *Question:* How long have the current actuaries been providing their service?

Answer: The current actuaries have been providing their services under the current contract for several years.

5. *Question:* Is the LAD satisfied with the current actuarial firm?

Answer: Yes, the previous contract has reached the time limits in Montana state law so the contract needs to go through a competitive procurement process.

6. *Question:* What were the annual fees charged and the terms of the contract?

Answer: The fees charged with the latest renewal of the contract were \$8500 for services and expenses and \$1000 for an on-site visit.

7. *Question:* Has the scope of work changed since the previous work was done?

Answer: The scope of the work changed only with the time periods involved. The scope did not change with any other provisions.

8. *Question:* Is a copy of the most recent actuarial report available?

Answer: Yes, a copy is available in .pdf format by emailing a request to Angie Lang at alang@mt.gov.

9. *Question:* Is a copy of the proposal of the last successful bidder available?

Answer: No. The prior proposal was from 2000 and has passed the records retention period for LAD.

10. *Question:* With respect to Section 3.0 Scope of Work Required Item E on page 11 of the RFP and continuing onto page 12, the due date for the report to LAD is unclear. One sentence in the section reads "Reports must be provided to LAD two weeks after receiving the MSF contract actuary's claims report, designated by MSF as final, for June 30, 2006". A subsequent sentence reads "The report is due three weeks from the receipt of the final report from the State Fund contract actuary or by October 10, 2006". Please clarify the due date for the report to LAD.

Answer: The due date for the report is three weeks from the receipt of the final report from the State Fund contract actuary or by October 10, 2006, whichever is later.

11. *Question:* How will the actuarial consultant's findings be transmitted to the MSF? What is the timeline for providing the actuarial consultant's findings to the MSF, the MSF's response to the findings of the actuarial consultant, and finally the actuarial consultant's inclusion of the MSF's written response into the actuarial consultant's report to LAD?

Answer: The actuarial consultant's findings for the June 30th reserve analysis are transmitted to the MSF in draft form about early September. After review and discussion, a final report is transmitted mid to late September. There is no formal MSF response letter included in the actuarial consultant's report.

12. *Question:* With respect to Section 5 Cost Proposal on page 14 of the RFP, LAD has the option of renewing the contract for up to an additional six years. Is the actuarial consultant locked into the same rates for all seven years?

Answer: As stated on page 20, item 16 of the RFP, the successful offeror "may have the opportunity to annually renew this contract for the next contract term at a price agreed upon by all parties. Should the parties be unable to negotiate a mutually acceptable fee, the contract may put out for proposal for the subsequent engagement period."

13. *Question:* With respect to Section 3.0 Scope of Work Required Items A and B on page 11 of the RFP, does MSF utilize a software package such as MIRA to set reserves for individual claims? If so, (a) for how long has such software been used, and for what type and/or age of claims? (b) does LAD expect the actuarial consultant to assess the validity of the case reserves produced by such software on either an individual claim or combined basis?

Answer: MSF has used an automated reserving system to assist in setting case reserves on individual claims since 1995 (MIRA, FairIsaac). MIRA predictions are considered advisory. Under the current claim system (ClaimCenter), the claim examiner has a MIRA prediction available to consider but must establish and is accountable for the case reserve. Evaluating the validity of individual claim case reserves, individually or in aggregate, is outside the scope of work. Evaluating the adequacy of financial loss reserves is the focus of the work.

14. *Question:* Should the proposal contemplate the use of additional data external to MSF?

Answer: Only to the extent that such external data is relevant to commenting on the reasonableness of MSF rates and reserves.

15. *Question:* Although copies of the contract actuary analysis of reserves at June 30, 2006 are not available, would it be possible to get a copy of the analysis of reserves at June 30, 2005?

Answer: See response to question #8.

16. *Question:* Will excel spreadsheets prepared by the MSF contract actuary be available to the reviewer?

Answer: The contract actuary's analysis is fully documented in their final hardcopy report. The contract actuary's internal electronic workproducts will not be available. However, MSF internal actuarial staff can assist in providing the loss experience data found in the contract actuary's report in electronic form as a convenience to eliminate duplicative data entry.

17. *Question:* Is the MSF required to submit annual financial statements to the Montana Department of Insurance similar to the Annual Statements that private carriers submit?

Answer: No. MSF voluntarily prepares statutory statements.

18. *Question:* How many, if any, trips to Montana should the proposal contemplate?

Answer: Previous contracts allowed for the option for reimbursement for one on-site visit if the actuary felt it was needed.